Role of pension management on economic growth: A review of literature

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ABSTRACT

Pension funds enable individuals to save over their working lives in order to finance their consumption needs in retirement, either through a lump sum or through the provision of an annuity, while also supplying funds to end-users such as corporations, other households (via securitized loans), or governments for investment or consumption. The study's goal is to investigate the impact of pension management on economic growth. A desktop literature review was used for this purpose. Relevant seminal references and journal articles for the study were identified using Google Scholar. The inclusion criteria entailed papers that were not over 10 years old. The study concluded that contributory pensions have the potential to increase GDP with competent risk and portfolio management by pension fund administrators and custodians (GDP). The findings indicated a positive relationship between retirement pension assets and economic growth. The study recommends that policymakers and pension fund regulators devise feasible methods for investing pension money to considerably benefit the economy while also maintaining the safety of the invested assets so as not to risk the interests of pension fund owners. In order to enhance economic growth, the study also suggested eliminating pension fund management delays, administrative bottlenecks, and corruption.

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Introduction

Pension funds are specific kinds of institutional investors that collect, combine, and invest the money that is contributed by sponsors as well as beneficiaries in order to meet the future pension responsibilities of the beneficiaries (Davis, 2015). The role of pension management contributes to effective economic growth by channeling current retirement savings into investments in financial assets and then converting these assets into a predictable post-employment income. This process is repeated several times over the course of an individual's working career. The distribution of income, the renegotiation of labor contracts, and the routing of funds to various financial markets are the three areas in which the economic implications of pension fund administration are most obvious. On the other hand, less obvious economic repercussions may begin to emerge in the spending and saving patterns of a large number of wage earners. The potential impact on saving is very noteworthy, especially when considering the significance of saving to the process of capital formation and to the health of the economy. It is possible that a change in the amount of money saved as a direct result of pension payments could have far-reaching implications for the growth and stability of the nation, (Jucks, 2018).

People are able to put money away in pension funds over the course of their working careers to pay for their retirement consumption needs in the form of a lump sum or an annuity. Additionally, pension funds are able to provide money to end-users such as businesses, other households (via securitized loans), or governments for the purpose of investment or consumption. The accumulation of capital in preparation for one's retirement is the objective of pension funds as a whole, (Dovie, 2018).
Governments all over the world are still having trouble deciding what the optimal retirement age should be, ensuring that pension payments are sufficient, and locating funding systems and sources that are acceptable. These problems have a variety of potential resolutions, but they all involve altering the structure of pension systems, altering either the retirement age or the amount of contributions and payments that can be made to pension funds, and either raising or lowering the current retirement age. Measures of this kind are typically determined by considering socioeconomic and demographic factors, in addition to the financial capabilities of the state. Nevertheless, one other objective is of equal significance, and that is to increase the efficiency of the pension system as a source of economic investment. Pension funds in developed nations invest their resources in treasury securities, private company shares, and long-term deposit accounts. These investments all contribute significantly to the development of capital markets, which, in turn, contributes to the expansion of the economy (Davis, 2015).

As a result of the formation of funded pension systems, pension funds are now able to accumulate assets that can be invested in the financial markets. Even if pension savings swarm out other household savings and total savings in the economy do not increase, it is anticipated that the accrual of pension fund investments will considerably improve the intensity and cashflow in capital markets because of the differences in investment behaviour between households and pension funds. This is because of the inconsistencies in investment behaviour between households and pension funds. Pension funds have incentives to invest more in illiquid and long-term assets that provide better returns, and because of their accruing assets and the longer-term nature of their liabilities, pension funds have the ability to provide a steady flow of cash to stock markets over the long term (Davis, 2015). In addition, households will increase their liquidity by making investments in bank deposits, open-end mutual funds, and traded securities rather than investing in illiquid assets such as property or non-traded financial instruments if they have a stake in illiquid pension funds. This is because households already have a stake in illiquid pension funds. In addition, this kind of activity will contribute to the expansion of the financial markets (Catalan et al., 2017).

The term "economic growth" refers to an increase from one period to the next in the capacity of an economy to produce goods and services. Both nominal (inflation adjusted) and real (adjusted for inflation) terms can be used to measure economic growth. It is important to use GDP or GNP per capita when comparing the economic growth rates of different countries because these measures take into account the impact of population differences. Generally speaking, technological achievements are linked to economic growth. For instance, the economy of the United States grew significantly during the period of time when the Internet and the technology it brought to US business as a whole was first introduced. The expansion of a nation's economy can be defined not only by an increase in its capacity for production but also by an enhancement in the standard of living enjoyed by its populace (Walubengo, 2018).

Because of the substitutive and complementary roles that pension funds play with regard to other financial firms, most notably corporate and institutional banks, the growth of capital and financial markets may be aided by pension funds. Pension funds, as challenging financial intermediary for household savings and business financing, encourage competition and may boost the efficiency of the loan and primary securities markets. Pension funds are also important to the economy as a whole because of their role in the economy as a whole (as observed by Impavido, 2007). Because of this, the difference in interest rates between deposits and loans becomes smaller, which in turn lowers the barrier to entry into the capital markets. According to Davis (2015), pension funds have the potential to be helpful to banks if they invest in long-term bank deposits or purchase long-term debt securities. Other potential benefits of growing pension funds include encouraging financial innovation, strengthening financial rules and corporate governance, modernizing securities market infrastructure, and increasing overall financial market efficiency and transparency (Davis, 2015). These repercussions ought to eventually contribute, on the whole, to a higher rate of long-term economic growth.

The rate of return on these financial assets, which are primarily long-term bonds and equities, is an essential component in the calculation of the amount of retirement income that can be obtained from defined contribution plans and the benefits that can be guaranteed by defined benefit plans, respectively. The real rate of interest over the long term is one of the most important factors that determines the rate of return on financial investments (Sharpe, 2013).

According to Lefort and Walker (2019) research, pension funds have the potential to reduce the cost of financing in emerging market economies (EMEs) via three different channels. The pension system has been reformed, which has resulted in a more established capital market and a reduction in the cost of issuing securities. This is the first channel. Second, even when taking into account the short-term performance of an investment, the predicted investment time horizon of pension funds is significantly longer than that of individuals and corporations, which reduces the "term premium." Third, a reduction in the equity risk premium can be attributed to the pooling of pension funds and the careful management of those funds, (Davis and Steil 2004).

It is possible that a decrease in the term premium as well as a reduction in the risk premium will result in a decrease in the average cost of capital, which will encourage investment. In addition, they demonstrate that pension funds lower security price volatility, which implies a reduced risk premium for their panel of emerging market economies. This is in contrast to the results that Davis et al., (2018) found for the G-7 countries, which indicated the opposite was true. Catalan et al., (2019) show that contractual saving institutions, such as pension funds, positively Granger-cause equity market capitalization and value traded. On the other hand, Impavido et al., (2017) and Hu (2015) found a positive association between contractual saving assets and bond market capitalization/GDP. Contractual saving organizations, such as pension funds, positively Granger-cause equity market capitalization and value traded, (Catalan et al., 2019).
Enhanced corporate governance may also assist pension funds in contributing to the expansion of the economy. In their article, "Clark and Hebb (2015) outline four reasons that make it easier for pension funds to engage with corporations," Clark and Hebb refer to this as the "Fifth Stage of Capitalism" and outline the four reasons that make it easier for pension funds to engage with corporations. It is difficult to "leave" the pension fund business by selling shares in underperforming index companies due to the widespread use of indexation procedures in the industry, which is the first factor. These procedures make it difficult to "leave." The second factor is the growing desire among owners of businesses for greater openness and responsibility. This desire has become especially prevalent in the wake of scandals involving companies such as Enron, Worldcom, and Parmalat. Third, there is an increasing amount of pressure being put on pension funds to participate in socially responsible investing (SRI). In the fourth place, efforts to "humanize" capital by incorporating social, moral, and political goals are more than just concerned with rates of return for pension funds.

In addition to the effect that the pension system has on the supply of labor, Disney and Emmerson (2015) asserts that the "tax component" of public pension contributions can have an effect on labor demand. This is the case if employees are able to pass the burden of pension contributions on to consumers in the form of higher product prices. If this occurs, then product demand will decrease, and producers may consider reducing the amount of labor they require. In light of these concerns, "in a defined-contribution plan, the strong connection between benefits and contributions is intended to eliminate labor market inefficiencies." As a consequence of this, there is a chance that economic growth will be accelerated, for instance as a consequence of a higher labor participation rate as a direct result of pension reform. These effects might be milder in places where defined benefit funded systems are more common, (James, 2018).

There are many different ways in which pensions contribute to the expansion of the economy, including at the level of the household, the community, and the nation. They are put toward investments in children living within households, with the goals of combating stunting and making it possible for children to attend school and excel academically, thereby assisting children in becoming more effective and productive members of the labor force. Pensioners and their families use the money they receive to invest in activities that will generate additional income. As a result, family members of working age are better able to find employment, which increases the overall productivity of the labor force. They also make it possible for households to quickly regain their output following an interruption, (Nyangarika & Bundala, 2020).

Injections of cash into various markets can help to boost local economies and have incredibly large beneficial impacts across a wide variety of communities. Many small business owners stand to benefit from increased economic activity in their local markets, with traders in particular having shown success when taking advantage of these opportunities. For instance, unemployed younger people can sell their work to older people in retirement communities. In point of fact, over the course of the past few years, municipalities that have adopted the SCG have outperformed other municipalities on a variety of indices, including employment rates. Pension payments are another tool that governments can use to entice financial service providers to expand their operations into more rural parts of the country, (Nyangarika & Bundala, 2020).

People spending their pensions can be an enormous motivating factor to national economies, resulting in benefits for businesses operating at the national level. This increased consumption and demand can be obtained by people spending their pensions. Pensions that are more inclusive can help increase social cohesion, which can lead to societies that are more peaceful and equitable as well as a climate that is more favorable to investment. Contributory plans can be enhanced by universal tax-funded pensions, which enables them to diversify their reserves and provides resources for large-scale investments in the economy. Additionally, according to the International Monetary Fund (IMF), excessive levels of inequality can stifle growth, and it has been demonstrated that old-age pensions are an effective instrument for lowering inequality.

The practice of pension management is expected to lead to improved economic growth in a country. In reality, however, the quality of pension management is poor. The poor management of the pension funds is influenced by the type of strategic approach used by fund managers. There needs to be a solution to this problem because it affects stakeholders. The ultimate goal of a pension fund's management should be to maximize returns to its beneficiaries. An asset management strategy aimed at improving scheme performance should be implemented. Following this requirement, the immediate question is whether a passive or active manager should be hired. The program's goals suggest that hiring a manager who is dedicated to achieving high levels of performance is a wise move. Pension fund managers' management strategies were examined in this study, which sheds light on how those strategies affect national economic growth.

**Literature Review**

**Institutional-Centric Theory of Finances**

An institutional-centric theory of finance was proposed by Stein and Rosefielde as an alternative to the flaws of the financial liberalization theory, which contributed to the instability of developing countries during the 1990s. Based on the concept of imperfect markets, the theory recognizes the existence of imperfect information, formal and informal institutions, and the efficiency of these institutions as the engine of development, Stein and Rosefielde (2005). This highlights the significance of having an integrated system that supports real-time access to financial information.
According to Bijlsma et al. (2018), pension assets have a significant influence on the expansion of economic sectors that are more reliant on financing from outside sources. The study demonstrates that the establishment of institutions such as pension funds, which offer long-term funding for constructive investment practices in countries where the financial activities of the conventional banking system are restricted, and contributes to the growth of the economy (Thomas and Spataro, 2016).

**Stakeholder Theory**

According to Freeman (Crane and Glozer, 2016), the idea of stakeholder management, also known as a stakeholder approach to strategic management, implies that managers need to develop and implement processes that satisfy all and only those parties with a stake in the organization. The primary objective of this procedure is to effectively manage and integrate the connections and interests of the company's owners, employees, customers, suppliers, communities, and other organizations in such a way as to ensure the company's continued success over the long term. A stakeholder approach places a heavy emphasis on the active management of the corporate environment, relationships, and the promotion of common interests when it comes to the development of business plans. Because it maintains that the purpose of a corporation is to maximize value for its stakeholders, the concept is pertinent to the research that we are conducting. According to Lexicon ft.com, in order for an organization to flourish and remain sustainable over time, its leaders need to ensure that the interests of its stakeholders, consumers, suppliers, employees, and communities are aligned and moving in the same direction. In this scenario, the shareholders are the members of the pension scheme who are anticipating receiving a pension upon reaching the end of their retirement period. In order to preserve and uphold this, trustees and service providers are required to devise risk management strategies and determine which ones are most suitable for application in the interest of ensuring that risks are minimized.

**Empirical Review**

Sun and Hu (2014) claim that a country's financial well-being and economic growth are bolstered by a well-funded pension system. The authors found that a 1% increase in pension fund assets can result in a 0.15-0.23 percent increase in the value of the capital market. Niggemann and Rocholl (2017) claim that restructuring pension funding causes a spike in stock and corporate bond markets, development of emerging nations. International variations in financial sector development can be predicted by the level of pension financing.

Pension assets have a positive impact on the capital market, as Stewart et al. (2017) acknowledge, but they also point out the limitations of this impact because of the tendency of pension assets to invest in short-term assets (bank deposits and short-term government bonds). Investment returns are lowered as a result, posit the authors. Foreign investment limits should be increased while encouraging innovative investment mechanisms should also be prioritized, according to the report. Studying Jordan's 1980-2017 capital market development in relation to pension funds, Daradkah and Al-Hamdoun (2021) found no statistically significant influence between pension funds and capital market development, but they found a statistically significant long-term balance between pension funds and capital market development (both in the market depth and its liquidity).

The impact of pension assets on economic growth is also extensively documented in scientific studies. Many researchers rely on regression models. Holzmann (2017) finds a positive correlation between pension reform and economic growth using the Solow model. A pension asset is incorporated into a CobbDouglas production function presented by Davis and Hu (2018). In both OECD and developing countries, according to Davis and Hu (2018), pension assets positively influence per capita output, with the latter having a greater impact. The impact of pension assets on GDP growth and the inessential data about the impact of GDP growth on pension assets are both established by Hu (2015) using Granger causality tests. Pension benefit levels, pension savings value, as well as the structure of mandatory pension payments to the distribution and accumulation systems are all modeled mathematically by Nepp and Dolgodvorov (2016). An inverse relationship between GDP and the share of pension payments that go to a fully funded pension plan was found by the authors.

The impact of South Africa's accumulated pension funds on investment levels and economic growth was examined by Sanusi and Kapingura (2021) using the Bayesian Linear Regression (BLR) model. Using time-series data on GDP, total pension funds, and gross fixed capital creation as a proxy for total investment level, from 1990(Q1) to 2019(Q1) (Q3). Based on empirical evidence from Bayesian Linear Regression analysis, pension funds in South Africa have little impact on economic growth and investment. The FMOLS findings also support the empirical conclusion, which shows that accumulated pension funds have no significant impact on investment levels and economic growth in South Africa. Government policymakers and pension fund regulators are urged by the report to come up with practical ways to invest pension funds' money that will have a significant positive impact on the economy while also protecting investors' interests.

From 2004 to 2012, Nwanne (2015) analyzed the impact of Nigeria's contributory pension schemes on the country's economic growth. The study's objectives were to examine the impact of pension funds on economic growth and the impact of mobilized pension savings. The study used an ex-post-facto research design. The Ordinary Least Squares Regression approach was used in the data analysis. Economic growth is negatively impacted by pension funds, while pension savings have a positive and large impact, according to the study. Essentially, this means that the goal of using pension funds to generate long-term capital to support economic growth was achieved. Also, it indicates that the program's coverage is low because the pension savings contribution is so small. Efforts should be stepped up to ensure better compliance and utilization of contributors' savings, according to the report.
According to Wanjala and Christopher (2013), “the link between Pension Fund Assets and Economic Growth in Kenya” was the primary focus of their study. Any correlation between Retirement Pension Assets, Equity Turnover, Treasury Bills, Inflation and Domestic Debt was the primary goal of the study. Research examined the relationship between pension assets, domestic debt, and GDP. Pension Assets and Stock Market Capitalization now have a direct relationship, thanks to this study. The relationship between Pension Assets and Inflation was also examined in depth. A comprehensive review of the relevant literature was carried out. The study focused on the conceptual area of pensions, where many experts defined it and assessed its importance. The Ministry of Finance and Planning's Consumer Price Index, the Ministry of Finance and Planning's Consumer Price Index, and the National Social Security Fund's financial records were used to gather secondary data. We used data from 2002 to 2011 and used SPSS, frequency tables, and percentages to figure out how the different variables interacted. According to the content analysis approach, which included descriptive statistical methods like measures of central tendency and inferential statistics like multiple regression analysis, the qualitative data was analyzed. The study's findings revealed a link between Kenya's retirement pension assets and the country's economic growth.

The various pension systems and Nigeria's funded pension scheme on economic growth

According to Farayibi and Adesoji (2016), a study on the impact of Nigeria's funded pension scheme on economic growth since its inception in 2004 used error correction mechanisms (ECMs) and Ordinary Least Squares (OLSs). Researchers found that both private and public contributions to Nigeria's pension funds increased significantly, leading to the creation of enormous investment funds on the capital and money markets. As a result, the economy was flooded with cash, new jobs were created, and the investment climate was improved. Contributory pensions, according to the findings of the study, have the potential to boost Nigeria's GDP while also providing retirees with greater convenience than the old defined benefit program. But the report recommended that delays in payments, administrative obstacles, and corruption in the management of Nigeria's pension funds be eliminated.

Kenyan pension funds and housing supply were examined by Ngugi (2012). As part of her research, she is looking for ways to use Kenyan pension funds as a source of home financing in the country. Oral interviews were conducted by the researcher, and questionnaires were distributed to the case study fund managers in order to collect the necessary data. Official documents, such as annual reports on the accounts of the Funds, were also thoroughly inspected where they were available. Members of these funds were also interviewed via questionnaires (contributors). It is widely accepted that pension funds have not had a significant impact on housing supply in Kenya, despite a substantial buildup of funds. Pension funds, in her view, have a significant opportunity to play a larger role in housing provision. She believes this. Study participants said they would prefer to have their pension funds invested in affordable housing that can be purchased before retirement. Consequently, a provision requiring pension funds to invest part of their investible assets in housing for their members is recommended by the report as an amendment to the Retirement Benefits Act. In order to avoid the loss of funds in bad investments, investment consultants should also handle the investment of funds.

A study by Kibet and Simiyu (2016) compared the economies of Singapore and Kenya to examine the impact of pension programs on growth. For the sake of reaching Kenya's Vision 2030 economic growth and development goals, they looked into the role pension plans played in Singapore's growth and development. Kenya's National Social Security Fund and Singapore's Central Provident fund were the focus of the study. The first pillar of their pension systems was examined. Secondary data was gathered from previously available sources using a historical design. Singapore's CPF covers both retirement and healthcare, as well as home ownership; in contrast, Kenya's pension system is characterized by low contributions, making it insufficient to support retirees after retirement. Pension reform is critical for Kenya to achieve its Vision 2030, according to these experts, because it has a significant and irrefutable impact on the country's economic development.

Nigeria's insurance industry was examined by Fashagba (2021) for the effects of income inequality. Research was conducted to determine how Nigeria's economic growth would be affected by the new plan. Secondary data on GDP and pension funds from the public and private sectors was used because it was readily available for a ten-year period. Ordinary least squares were used in the study's data analysis. According to the findings of the research, Nigeria's economy grew significantly as a result of the new pension fund's implementation. According to the study, a consolidation of the country's contributory pension system is needed to help the economy grow.

A study by Ebenezer et al. (2019) examined how much workers in Ghana contribute to the various pension systems available and how this affects GDP (GDP). The study was conducted Using a cross-sectional design, a quantitative method of scientific investigation. The researchers were able to collect relevant research data in a predetermined time frame using this method. The study relied heavily on secondary sources for the vast majority of its information. Descriptive statistics and regression models were used to define and evaluate the research variables and their performance in the Ghanaian economy over the time period. The study found a correlation between Ghana's GDP and pension fund assets. Around 94.93% of Ghana's GDP volatility is accounted for by pension fund assets, according to the data. The World Bank does not collect data on African economies' pension fund assets, except for Kenya. The Trustee and other pension fund managers were advised to keep a close eye on local and international financial markets in search of the best investment "deals" in order to ensure higher real returns on pension fund investments because financial market volatility cannot be avoided. The "principles of security, profitability, and liquidity" should guide the investment decisions of pension fund managers. The Regulator, Board of Trustees, and other fund managers must examine their current investment framework and capabilities to match contemporary global norms in order to ensure flexibility and rapid response to changes in global investment...
opportunities and difficulties. Reducing operating and investment costs is an important first step in increasing the amount of investment money available to retirees. As a result, the lives of millions of people who rely on the Trustee’s and other fund managers’ strategic investments would be improved.

Conclusions

The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low-cost technique as compared to field research, as the main cost is involved in executive’s time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

The results were grouped into various research gap categories namely as knowledge and methodological gaps:

i. Studies by Sun and Hu (2014), Stewart et al. (2017), Daradkah and Al-Hamdoun (2021), Sanusi & Kapingura, (2021), Nwanne, (2015), Wanjala and Christopher (2013), Farayibi & Adesoji (2016), Ngugi (2012), Fashagba (2021) and Ebenezer et al., (2019) had knowledge gap. In addition, all the mentioned studies did not establish the role of economic growth. Therefore, the current study seeks to address these knowledge gaps.

ii. Studies by Sun and Hu (2014), Stewart et al. (2017), Daradkah and Al-Hamdoun (2021), Sanusi & Kapingura, (2021), Nwanne, (2015), Farayibi & Adesoji (2016), Ngugi (2012), Fashagba (2021) and Ebenezer et al., (2019) had methodological gap. In addition, all the mentioned studies did not employ desktop review methodology. Therefore, the current study seeks to address these methodology gaps.

Financial markets, income redistribution, and wage contract disputes are all ways in which pension funds have an impact on the economy. Through improved corporate governance, pension funds may also contribute to economic growth. The research found that pensions have a positive impact on economic growth at the family, community, and national levels in a variety of ways. A household's investment in children, addressing stunting and ensuring that they can go and perform well in school, helps them become more effective and productive members of society. Local economies can benefit enormously from cash injections, which can have a cascading effect throughout the region. National economies can benefit from the increased consumption and demand generated by people spending their pensions.

Pension fund administrators and custodians can increase GDP through risk and portfolio management, according to the findings of the study (GDP). The study found a positive correlation between the amount of retirement pension assets and the growth of the economy.

According to the findings, policymakers and pension fund regulators should devise practical methods for investing pension funds in order to significantly benefit the economy while also maintaining the safety of invested assets in order to avoid putting pension fund owners’ interests at risk. The report also recommended eliminating delays in pension fund management, administrative bottlenecks, and corruption in order to boost economic growth. To further boost economic growth, the research suggests that the country's contributory pension system be strengthened.

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